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E-COMMERCE FOR UNILEVER FOOD SOLUTIONS

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1. Executive Summary

This project recommends the creation of an e-commerce platform for Unilever Food Solutions. It was completely developed and proposed by me when I was doing an internship at Unilever.

After realizing that an e-commerce platform would not fit on most of Unilever's areas of business, due to their business model focused on retail, I turned to UFS and concluded that their business could use an e-commerce platform to bring it closer to final consumers and provide more information on the food service market and it's operator's preferences. Also, it would enable the company to increase it's profits by decreasing overhead and operating costs and by creating savings in UFS's relation with it's partners.

The proposed business plan gives a detailed explanation of the venture, along with expected needs and risks taking into account the unique nature of electronic commerce. The business plan outlines how the company can take advantage of e-commerce to allow it to gain greater efficiency in management, marketing, sales, and other business processes.

Feedback from the company was positive towards this project, as it was approved by UFS's national sales director Fernando Castanheira, who provided me with the information I needed throughout the process and enabled me to contact the necessary entities to deliver the project. It is expected that I will present the project to UFS's managing director Carla de Sousa Pereira.

2. Company description

UJM and UFS

Unilever is an Anglo–Dutch multinational consumer goods company co-headquartered in London, England and Rotterdam, The Netherlands. Its products include food, beverages, cleaning agents and personal care products.

In Portugal, it operates through a joint venture with Jerónimo Martins, one of the biggest distribution companies in the country. This started in 2007, with the fusion of the companies Fima, Lever and IgloOlá, which resulted in the company Unilever Jerónimo Martins Lda.

Unilever Food Solutions is an area of business of Unilever that was introduced in Portugal in the late 80's and aims at finding solutions for professionals in the HORECA segment. It is practically independent from the company itself, as its business is completely different from all the other areas in the company. The solutions UFS offers go from bigger and more economical formats for products that are available in the retail market, to products that are not commercialized in retail, as they have a better fit for professionals. Also, Unilever Food Solutions provides a sort of counseling service, which helps optimize its customers operations, from cost and time saving recipes to menu formulation advisory.

UFS commercializes a wide range of products (see appendix 1), which are distributed into 14 categories (Side dishes; Mise en place, which literally means "putting in place", as in set up; Seasonings; Soups; Broths; Italian line; Vegetable cream; Margarines; Desserts; Cold sauces; Tea; Sweets; Vegetable oils; Solutions for sauces), under the brands Hellmann's, Knorr, Lipton; Maizena, Calvé, Vaqueiro, Becel, Flora, Phase and Planta[1].

Logistics and operations of UFS

UFS operates using a set of partners that distribute its products to the HORECA segment. There are three main types of partners in this business: Distributors, Cash and Carries and Chains (see appendix 2). Distributors buy products from UFS at a price that is established in the following way[2]:

1. UFS has a table with the prices of all products to consumers.
2. Partners buy products at a price that is calculated by PRICE=TABLE PRICE*(1-MARGIN).
3. Partners sell the products to final customers at a price that may not actually be controlled by UFS.

In order to keep a consistent sales flow in this entire process, sales teams are divided into sell-in teams and sell-out teams. Sell-in teams are in charge of pushing products from Unilever to the distributors, ensuring that there are no stock ruptures. The sell-out teams are the ones that pull the products from the distributors to the final consumers. This involves much more tact, since they try not only to keep (or better yet, increase) the flow of products to current customers order, but also try to increase SKUs sold, promote new products and promotions, and try to capture new clients.

The main problems that UFS faces at the moment are delayed payments and lack of control on the prices exercised by distributors. The first comes from the fact that Unilever is dependent of two terms of payment, which is the one of the distributors and the one from the final customers to the distributor. It is understandable that enforcing payments is quite difficult in such a system, as it is a problem for most of the sectors due to the current financial crisis. Despite generating less concern, the lack of control on the final prices exercised by the distributors is also a problem as it may well affect the view clients have on UFS's products, as different prices may be exercised for similar clients. It is relevant to notice that these problems are related to the fact that UFS is not close to its final consumers, not having a direct relationship with them. This is, by itself, a problem, as it limits the information UFS can have on its clients.

After elaborating a survey on 25 operators, it was noticeable that there is not much awareness and sense of branding regarding UFS. Although 80% of the respondents bought UFS's products, only 12% knew about the existence of Unilever Food Solutions. This is also a result from UFS doing business with their partners and not directly with the final consumers. 52% of the respondents were managers of SIOs (small independent operators)[3], which are snack bars and small meal providers, and 48% of restaurants.

For the 20% of the respondents that did not consume UFS's products, the main reasons pointed out were the prices of the products, the fact that the operator did not need a great deal of product and therefore bought retail products, and the quality of the products, this latter for restaurants with a more premium positioning and therefore did not feel attracted to UFS's products.

3. The competitive environment

Besides Unilever Food Solutions, the Portuguese food service market is composed of Royal, Nestlé, Mendes Gonçalves and Tetley, but none of them has a such a wide range of products as UFS, competing only in some categories.

Nestlé is probably the biggest competitor for UFS, competing in many categories. Nestlé has two brands operating in this market: Maggi, which has products such as cold sauces, solutions for sauces, soups, seasonings and broths; and Dolcello, which has desserts and sweets[4]. Mendes Gonçalves also has a considerable relevance in the industry, having the differentiation factor of being a national brand and commercializing products that UFS does not, such as olive oil, olives, lupins and pickles. They also compete in cold sauces, seasonings, side dishes and vegetable oils, under the brands Paladin, Creative and Peninsular[5]. Royal competes with desserts and sweets[6], while Tetley only competes in the tea category[7].

None of UFS's competitors has expanded to an online channel, and despite the fact that they all have a website, it is not as focused and complete as UFS's since none of these companies focus solely in the food service market. They all operate in a similar way as UFS, selling their products to distributors in order to get their products to the final customers.

4. The internet

Internet business issues

Operating a business in the internet brings a set of advantages that a company can take advantage of. The far reach obtained by operating in the internet, allows a company to reach potential customers that under traditional channels would be harder to approach. This gives an advantage on acquiring new customers for an online business. This advantage is maximized by another strength of online operations which is the nature of communication, which is fast and free, meaning higher efficiency and quicker processing of sales. Perhaps the most obvious benefit of the Internet is cost savings. Information at faster speeds saves time, which either saves or makes money. Many functions in the business process, i.e. bookkeeper, can be automated, which helps to streamline processes and reduce the cost of labor. Also, fixed costs regarding infrastructure may decline due to the lack of need of a physical store.

Despite these undoubtable advantages of operating any business through the internet, there are serious issues that a business will face in this channel, and therefore will have to deal with. We can separate these issues into two scopes, the firm's and the client's.

<u>The firm's scope:</u>

The need for knowledge and expertise is an issue that directly affects the firm, since in order to replicate a business on the online channel, one must be capable of not only building the site, but also deliver constant maintenance. This is a very delicate issue since the functionality and design of a website are of extreme importance, as they are the factors which will decrease bounce rates, increase browsers and decrease waverers[8]. The bounce rate is the percentage of people that after entering an online store immediately leave, viewing only the landing page. By improving the design and organization of a website, a store becomes more attractive and therefore potential clients won't bounce off the store as frequently. Browsers are potential clients who don't bounce off the web site immediately, browsing it to see what it has to offer. In order to increase browsers, a website must have the most relevant information and links clearly exposed so that the user understands what he might find if he starts browsing. After this, and before a user goes for conversion and actually makes a purchase, there are two kinds of waverers: the early waverer and the late waverer. The early waverer, despite having started browsing the website, does not feel compelled to purchase a product and ends up leaving the website. The propensity for early waverers might be diminished by improving content and presentation (i.e. top quality pictures from different angles of the different products; succinct writing with only relevant information). The late waverers are the ones that select a product and back down from the purchase due to a non user friendly check-out page. The check-out page is where the user will finalize the purchase, by paying the products he has on his "shopping cart". These processes may sometimes be too complicated, since by trying to avoid fraud, websites create too many hurdles for the purchase to be completed (see appendix 3).

The deliverance of security and privacy is another important issue that any firm faces when trying to go online. This issue is easily understandable: a physical store cannot succeed if it has no security and if customers might have their financial information exposed, this might seem redundant, but a mandatory benchmark for any online store is a physical one.

The user’s scope:

On the user’s side there are also two important issues that a firm will always have to take into consideration. The sensory deficit is a very important issue that limits the business models which might be successful online. A user, when shopping online, cannot use he’s senses to evaluate the product’s quality and therefore wether he will buy it or not. This poses a limit for the first purchases of course, since after a reputation is built this no longer is an problem. However, firms have to consider this on their business models, and think of ways to avoid losing customers due to this limitation.

Another relevant issue is the fear some consumers have of buying online. A firm needs to convey confidence for the consumers, by assuring that their financial information is secured, and that the customer’s orders will actually arrive, and in good conditions. A firm must always try to have their website certified by the most prominent online security organizations[9].

E-commerce in Portugal

Despite still being underdeveloped comparing to the European Union’s average, electronic business in Portugal has considerable relevance and is growing, as the number of internet users and online shoppers increase considerably every year.

In 2012, the portuguese electronic commerce market was worth about 2,6 billion Euros in the B2C sphere, about 1,5% of the country’s GDP, while in the B2B and B2G sphere, the market was worth about 36,7 billion Euros, about 24% of the country’s GDP. This latter value includes all the transactions among companies using various platforms, including EDI. It is estimated that the B2C market will increase to 4 billion Euros (2,5% of Portugal’s GDP) in 2017, while in the B2B and B2G sphere it will increase to 69,2 billion (43% of GDP). The same study indicates that there are about 6,7 million internet users from which about 2,5 million buy online. These values are expected to ascend to 8,4 and 3,5 million, respectively, by 2017. This indicates that the trend of moving businesses online is supported by a growing market[10](see appendix 4).

In a joint market study conducted by ACEPI and ANACOM in the third quarter of 2013[11], 64% of the respondents reported that their online store had increased sales comparing to the homologous period, and 36% said they experienced a double digit growth rate (see appendix 5). Also, 36% reported their business decreased sales, but this high percentage can also be attributed to the underdeveloped e-commerce market in Portugal, as well as all the previously explained issues of online business, which due to lack of experience might not have been addressed properly by some respondents. Regarding the number of clients, 80% of respondents said that their client base increased, 44% reported a double digit increase. 24% of the inquired online stores stated that they had between 0 and 100 clients, while another 24% stated that they had over 50,000 clients (see appendix 6).

5. Defining the opportunity

We've seen that the current business model entails problems that are mainly related to the fact that UFS does not deal directly with its final consumers. The market landscape shows that business models are similar among the market's players. After analyzing the context of the internet as a potential business channel, we've seen that e-commerce in Portugal is gaining preponderance and it seems that is a trend that will continue to grow. Also, the migration of businesses to the internet appears to be supported by a fast increasing client base.

Given this, it seems that there is an opportunity for UFS to create an online store, with an e-business model that will get the company closer to its consumers and differentiated from its competitors, enjoying all the advantages the internet has to offer. In the market study conducted by me, already mentioned on chapter 2., 48% of the respondents showed openness to buy this kind of products through an internet platform. This statistic is not higher due to the number of elderly managers that don't intend to change the way they worked their entire life.

The main goal of this project is to increase the exposure of UFS and therefore capture new clients, with a new business model that will include the distributors (wholesalers and buying groups) that partner with UFS. Also, it will allow UFS to save in their relation with partners, as they will only make the delivery service to the final consumers, without having to negotiate with them as prices will be set by UFS. Also, consumers will make the orders and pay the goods directly to Unilever.

As we will see, this project will entail mainly benefits, for all parts involved, creating actual value for the marketplace.

6. E-commerce for UFS

Framework

UFS already has a website but the online store, despite being linked to the website, would be a separated platform with a completely different purpose and value proposition.

The website will be used to expose UFS's portfolio, in an extensive and very detailed way; show the UFS chefs team, in order to give credibility to the company, and contain all the recipes and tips for optimization of menus and processes.

The online store, on the other hand, will naturally serve to sell products, divulge new promotions and campaigns and serve as a strong link between customers and the company, putting it in line with the co-creation trend, where customers are made business partners[12].

Business description

<u>Selling products</u>

Given the nature of the target market of UFS, the usability and ease of order is a major success factor for this platform, as customers will have to feel completely comfortable using the online store to purchase their products. Therefore, the website will have to be as user friendly as possible, making the purchasing process as simple as can be.

In order to be able to purchase UFS's products through the online platform, customers have to first register in it, providing some mandatory data, like e-mail, username and password.

The process will be made up of four main steps:

1st step - The customer places the order and pays directly to Unilever.

2nd step - A distributor is automatically designated by geographical proximity.

3rd step - Distribution is made by UFS's partners, with a delivery note.

4th step - UFS pays the distributor for its service.

The two major, immediate, differences that this new business process brings is that customers will now pay and buy from Unilever, and the final price is controlled by the company. The fact that UFS will now pay only for the distribution service, will create an advantage in negotiating margins and avoid the payment of scorecards. These savings regarding the relation with partners will help finance the platform's costs and investments, this will be further analyzed in the financial projections section.

It is also important to state that there will be a minimum order value, so that it is assured that the distribution service is worthwhile.

<u>Promotions and campaigns</u>

The creation of a clients' e-mail database, which will happen since clients will have to give their e-mail to be able to register in the store, will allow the firm to better divulge promotions and campaigns directly to consumers, hence demonstrating the communication advantage of operating a business through the internet. This ease of communication will allow more frequent and short lasting promotions, keeping clients more connected and clinging to the website. It is understandable that this is a major success factor for an e-commerce platform, since the more time a user spends in a website, the more comfortable he becomes in it, increasing the likelihood of reaching conversion.

It is important to refer that given the immediate disclosure of such promotions and the possibility of clients to instantly take advantage of them will allow the firm to promote on products that are, for example, losing validity and therefore have to be dispatched.

Integrating the client in the business

Despite the undoubtable importance of the financial savings and capture of new clients that this platform will bring, I believe that the biggest benefit and differentiation factor comes from this topic. Integrating the client, in this context, means co-creation or cooperation between the two parts, increasing the information available for the firm to mold the product in a way that best satisfies its customers[13]. This is a symbiotic relation that will benefit both parts, the customers will have products better fitted to their needs and the firm will have more customer satisfaction and should expect an increase in sales.

The platform will allow the company to better interact with the customers and feedback on the products and service has to be sacked frequently. At an initial stage, an internal chat associated to the platform was though to be a good solution for this, as the company could post topics to be discussed by the users. After better considering this option, it was realized that this was a dangerous option that could backfire for the company, as the discussions could lead to strong criticisms and complaints of particular cases, which could seriously damage the company's reputation[14]. Therefore another solution was found, one where only the company could have access to the user's comments. The idea is for questions to be posted on the platform on a regular basis, to which users can answer through an integrated e-mail system, which sends the answers directly to the company's customer service department. The question is: How can we incentivize the users to answer with quality and as frequently as possible the questions posted on the website?

This is answered by another feature this platform will have, which is a loyalty system based on store points that when spent provide users with numerous perks. This system will create incentives for the users to stay longer in the website and participate more actively in the development of the products. The system will work as follows:

Users gain points by:

- Filling as much data as possible: This will provide the company with more information on its clients, which will be important for market studies and statistics. This is something that clearly lacks on UFS, explained by the fact that the company does not deal directly with its final customers.
- Answering the questions posted on the platform: This will incentivize clients to be more active in the development of products and services, putting the firm in a co-creation environment with its clients.
- Undertaking designated promotions: Some promotions will give points to users who undertake them, this will create an incentive for users to purchase, as they will be able to use those points for their benefit.
- Buying certain bundles: There will be products that, when bundled in a purchase, will give points to the users, this will bring the same advantages for the company and the clients as in the previous point.

Users can spend points in:

- Samples: Users can spend points in order to get samples, which are delivered together with a purchase they make.

- Products: Users can spend points to ask for extra products to come with an order.
- Visits from one of UFS's chefs: People can spend points in order to receive a visit from one of the members of the UFS chefs team. These visits would serve to help the client improve its operations, by improving, for example, menus and recipes, by making them more attractive and time and cost efficient.
- Bundles: Users can buy certain bundles spending only points, here there is no need for a purchase. These bundles will be mainly composed of less sold or new products, in order to create incentives for customers to try them.

This kind of loyalty systems are offered by many software companies, such as Sweet Tooth[15].

<u>What is in it for the company?</u>

Naturally, there are many benefits associated with this project, as shown bellow:

- It is in line with the current trend of digitalization of businesses.
- An effective and wide ranged means of creating awareness for the products offered and capturing new clients.
- Payment guarantees, since financial information of customers will be available for the company.
- Financial savings in the business relation with partners, which will be used for investments in the platform, maintenance and marketing costs.
- Control on prices to final consumers. Despite not being an extremely relevant benefit, this will strengthen the consumer's confidence on UFS, as prices and promotions will be practiced uniformly among consumers, creating equal possibilities for all.

- Creation of a database with information of UFS's clients. This is a major pro for this project, as this will allow much more thorough and complete market studies for the company, giving it an advantage comparing to competitors.
- Clients will become "partners", as they will be able to influence how products are produced in order to better fill their needs. This will naturally be exploited for the company's benefit.

Besides the pros presented above, the fact that UFS will be the first player in this market to build an online store has also to be taken into consideration. It will become an incumbent in the electronic market of culinary solutions for professionals, creating a competitive advantage towards the other players. Despite this, being the incumbent can also be seen as a risk. This will be explained on chapter 8. Concerns and mitigations.

Marketing Plan

Given the nature of the project and the fact that its main purpose is to increase exposure and capture new clients, there is a need for both online and offline marketing actions. Despite the fact that the marketing expenses for an e-commerce platform are always very high, it is important to consider Unilever's contention of costs, specially in advertisement and promotion, given the current financial crisis and consequent contraction of A&P budgets.

<u>Online Marketing:</u>

- Social Media: UFS has already an established presence in the social network Facebook, with a page that already has about 20,500 likes. This is a good starting point for promoting the online store. Advertising the store by exposing the many benefits it brings for its users is what needs to be done in the Facebook page, with links that redirect to the platform itself[16].

- Email Marketing: Despite the emerging importance of social networks and other alternatives for communicating instantly and for free, emails are still by far the most used method of communication in the world and promises to continue to grow in volume. It is expected that between 2013 and 2017, the number of e-mail accounts worldwide will grow from 3.9B to 4.9B, at a annual growth rate of 6%. In 2013, the majority of email traffic comes from business email, which accounts for over 100 billion emails sent and received per day. Email remains the predominant form of communication in the business space. This trend is expected to continue, and business email will account for over 132 billion emails sent and received per day by the end of 2017[17] (see appendix 7). Also, spam controls have greatly improved over the years, avoiding dubious and excessive advertisement to reach our e-mail boxes. Therefore, and contrarily to what many people might think, e-mail marketing is still one of the most effective online marketing methods at the time. To do this, UFS must get a database of potential clients, which can be made through partners, associations of hotels and restaurants, gastronomical fairs and clients of the "pull" selling team. In order for this practice to be optimized, it is necessary for the company to keep measuring performance, by looking at click-through-rates, which are the percentages of people the company emailed that actually click the links on the message, unsubscribe rate, which is relevant to see if we are disturbing a great deal of potential converters and, of course, the conversion rate of these actions[18].

- Search Engine Optimization[19]: SEO is the process of improving the visibility of a website or a webpage in a search engine's "natural" or un-paid search results. By engaging certain practices, the search engine's algorithm will place the website in first place, considering it more relevant. Examples of SEO practices are: Adding the page to Google Index; Inserting relevant content that relates to the website and to what consumers are looking for; Regular website updates; Optimization of the webpage, regarding speed, errors and compatibility with browsers; and other technical details, like the existence of a site map and avoidance of text image files, among other.
- Search Engine Marketing: SEM is the process of promoting and marketing a website through paid listings (advertisements) on search engines. Ads on search engines operate on either a pay-per-click method or a pay-per-thousand impressions one. In the first, the entity advertising only pays when the advertisement is clicked on, while in the second, the entity pays for each thousand times the advertisement shows on a computer screen. Given that the target for UFS's online store is quite specific, I believe that it would be wiser to opt for a pay-per-click payment scheme, with ads focused on conversion (in this case, acquiring users). This means ads must be quite clear on what is offered and the conditions implied, so that there will only be a click when someone is actually interested in what the ad offers[20]. Besides advertising on search engines, UFS should consider advertising in some relevant websites in particular, like the websites of associations of hotels and restaurants.

Offline Marketing:

- Sell-out vendors: Will play a central role in communicating this option for new potential clients they visit, as well as demonstrating how to place orders and use the different features in the website.
- Gastronomical Fairs: Here UFS can not only promote the online platform, but also the products themselves. Demonstrations of how to use the platform and, more importantly, of how easy a consumer can make an order using it can be made to increase conversions. Also, there can be challenges where potential users do a simulation of an order, having to register on the store, receiving samples for participating. This would also help improve the UFS's client e-mail database.

Financial projections

In order to clearly access the feasibility of this project, I calculated the deltas of both turnover and operational profit, for each of the first three years of operations. These deltas represent the project's gains comparing to year 0. I assumed 2014 as year 0, and used UFS's P&L to extract the data necessary for all the calculations.

As TO and Op. Profit of each of the three years will be compared to y=0, I estimated the discount rate using a 10 year German "bund", gathered the Beta of internet retail (1,16[21]) and assumed a market risk premium of 5%. The calculation lead to a discount rate of 7,22% (see appendix 8).

It is projected 0% growth in TO for UFS from 2013 to 2014[22], and I assumed that this value will remain for the physical (the original and currently used) business model during the time span under analysis (see appendix 10).

There will be two sources of revenue for the online store: The inevitable cannibalization of sales from the physical model (which will lead to incremental savings) and the capture of new clients.

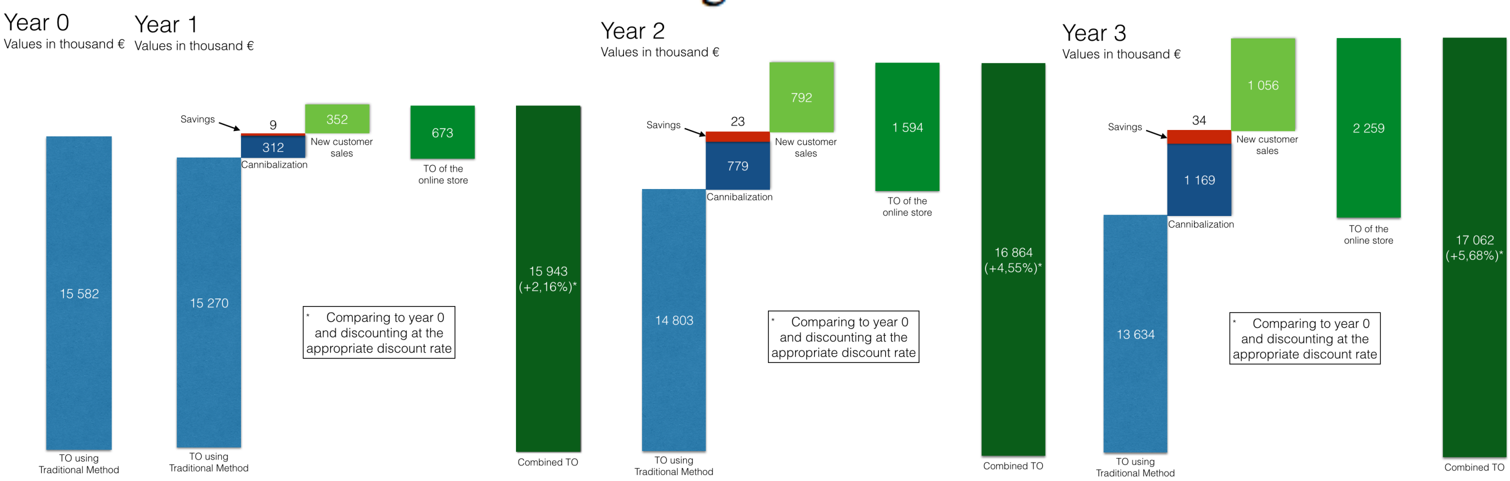
I estimated a cannibalization rate of 2%, 5% and 7,5% for years 1, 2 and 3, respectively. Given all the advantages this online model brings to consumers, it would not be surprising if estimates were higher for this rate but, after conducting my field study, I realized that most managers respect and wish to maintain the relationship they have with distributors. When asked to place the relationship with distributors on a scale from 0-10, managers averaged a 7,56 score, which is quite a good score given the constant contact and nature of this relationship, which can lead to many stressful situations. Also, there are a great deal of operators that will not easily change the way they have been doing business for years. It is also relevant to state that the focus of this project is not to migrate clients from the physical model to the online one, but to capture new clients.

Cannibalization will lead to savings created by the new, inferior, margin of UFS's partners. Wholesalers, buying groups and other types of distributors now have a margin that averages 14,5%, which will be reduced to 12% in online sales, plus scorecards of 3%, which will not exist in the new model (see appendix 12). Despite these gains, the platform will have to pay a transaction fee which is estimated to be 3%. Given all this, UFS will save 2,5% of the cannibalized sales. Regarding the capture of new customers, we have to consider the food service market, which has about 76 700 operators from which there is data that 24 000 buy UFS's products plus an estimate of 15 000 from one of the channels available[23](see appendix 12). This lead me to assume that there are about 40 000 operators that UFS's business does not reach. When projecting the retention of unreached operators, I estimated 4%, 9% and 12% for years 1, 2 and 3, respectively.

It is also relevant to clarify that when calculating the value of sales, I assumed that new clients would make 5 purchases per year and would buy the minimum purchase value required, which I assumed to be 50€. (See appendix 13)

After establishing these reasonable assumptions and performing the adequate calculations, I reached a delta on turnover of 2,16%, 4,55% and 5,68% for years 1, 2 and 3, respectively (see Diagram 1).

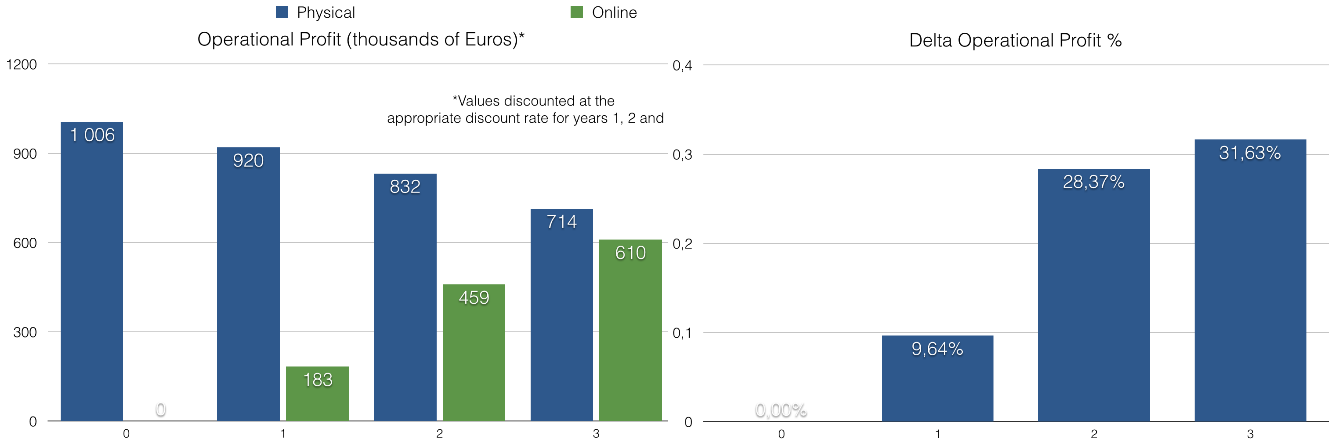
Diagram 1



To calculate the operating profit, I assumed a gross margin of 33,7%, equal to the one estimated for 2014 and assumed it to be constant through the 3 years. As mentioned in chapter 4., overhead and operating costs are much lower in an online business (see appendix 8), therefore improving operating profits for this project.

The deltas on operating profit were 9,64%, 28,37% and 31,63%, for years 1, 2 and 3, respectively (see Diagram 2).

Diagram 2



The significant difference between year one and year two not only comes from the more significant increase in turnover but also from the subtraction of the initial investment required for the realization of the project. After a meeting with Licentia, which is a company that builds e-commerce platforms[24], it was estimated that the investment for the construction of the platform will be 20 000€.

It is also relevant to mention that this platform will increase UFS's client database in 10,3%, in three years.

This analysis shows this project to be extremely appealing financially.

<u>Sensitivity Analysis</u>

In order to better predict the outcome of the decision of undertaking this project, a analysis has to be made considering a different situation, comparing to predictions.

Therefore, I focused in sales to new clients and the assumption of the market risk premium to perform this analysis.

Analyzing sales to new clients, I considered a situation where the platform sold less 50%, each year, which naturally lead to a decrease in the deltas. Regarding turnover, deltas were 1,11%, 2,34% and 2,93%, while the ones regarding operating profit decreased to 4,15%, 16,83% and 17,28%, for years 1, 2 and 3, respectively.

Regarding MRP, I considered a situation where it increased by 1%, to 6%, which would increase the discount rate to 8,38%. These changes would decrease turnover deltas to 2,14%, 4,45% and 5,50% and operational profit deltas to 9,43%, 27,39 and 29,41%, for years 1, 2 and 3, respectively.

In these alternative situations, the deltas still show this project to be extremely appealing financially.

Barriers

The implementation of this project will certainly be hampered by some difficulties that the firm will surely have to face and be able to deal with.

Given the new model, coordination with partners is something that will have to be completely restructured. This barrier will be quite demanding as the success of the e-business model depends on it. More than having to coordinate stocks and deliveries, the company will also have to coordinate sample's stocks and coordinate stocks between products, in order to be able to make certain promotions without risking ruptures on the promoted products. This will demand close attention and focus by UFS, in order to optimize this relation.

Despite receiving payments from customers is one of the major benefits of this project, a problem rises with this, given that the company's customer service department does not have the capacity to bill such a high number of clients, as are expected in this potential business. This poses an easily solved problem, as billing processes can be automated in e-commerce. Bills are sent to customers automatically after the payment is done.

Another barrier the company will certainly face is the acceptance of this new model by UFS's partners, as they will be reluctant to accept this new reality. For them, this project will immediately mean smaller margins and this will create a notion that the project is bad for them. As we will see, this notion is wrong, as there are many advantages for the partners that will end up weighting much more than the disadvantages. This has to be clearly explained to the partners, selling this project as something which is good for all actors.

7. Pros and cons of the project

For the partners

Pros:

- Guarantee of payments: The fact that they will now be paid by Unilever gives the payment guarantees required, as a company with the size of Unilever does not delay on such payments.
- Access to new clients: The grasp of new clients by UFS will allow partners to contact with them in the distribution process. They will go to a new establishment and have the opportunity to create contacts for the sale of other products.
- Time saving. There is no need for negotiating UFS's products nor billing customers for them, they just have to deliver them and focus on the sales of other products.
- Market gain. In the conducted survey, 55% of the respondents said they bought UFS's products in Cash-n-Carries, rather than distributors. This is purely an opportunity for the partners, not representing an intention for UFS.

Cons:

- Might difficult cross-selling actions.
- Smaller margin for each distributed product.

For the Final Consumers

After carefully considering the implications this project might have to consumers, it seems that there are no cons for them. They will improve their convenience of order, face homogenous prices, have immediate access to promotions, be able to interact with the company for their benefit and win prizes through the platform's points system.

8. Concerns and mitigations

Despite the clear majority of advantages regarding this project, there are some risks that have to be taken into consideration and should generate a certain level of concern and preparation in order to either avoid or, in case they become a reality, overcome them.

The nature of the target users is something that should generate a certain amount of concern in this project. Many of the potential customers are restaurants or SIOs (Small Independent Operators) that are family businesses, and some are in the more interior and aged area of the country. This means that the target population is not mainly electronic friendly. Therefore, there naturally is the risk of the platform not having the same penetration in the market as expected. This can be bypassed if there is a great effort and focus on user friendliness when developing the online store and ability to convey that message, in order to better capture this less internet accustomed target. Marketing actions must show the simplicity of the platform for its users.

Given the new business model that this platform will imply, UFS will have to establish a minimum order value to assure a fair compensation to its partners. This poses a concern since if this value is to low, consumers might make many orders of little value, which might not please UFS's partners, given the small return they will have for each of their services. On the other hand, establishing a high minimum purchase value might lead to fewer purchases and less activity in the online store. In order to reach an optimal value, UFS must consider current average purchases as well as negotiate this value with its partners.

Cannibalization of Unilever's Foods department, which targets retail, is another risk that has to be considered. Keeping the website open for any person to purchase will increase sales possibilities, but on the other hand it might cannibalize sales from Unilever's department of foods. UFS must have the ability to limit the online store to restaurants, but this limitation should only be put in practice if there is actually any noticeable cannibalization. This is because it might be counter productive, as in order to effectively filter the website to "professionals", registering in it might become more difficult, and therefore less user friendly, compromising the website's success.

In the barriers section of chapter 6., we see the acceptance of partners as a barrier for the implementation of this project, but even when this barrier is surpassed, there will always be the risk of a tension being created between UFS and its partners that might lead to an actual conflict. This would be a very negative scenario for UFS and therefore it will have to be transparent with its partners in order for them to trust this new, innovative system. UFS also has to help its partners to gain as much as possible with this new system.

Last but not least there is the fact that this project will not have any benchmarking, since there is no other online store that sells this kind of products for this target, in Portugal at least. UFS will always be subject to making mistakes which might compromise the success of the platform, and this might make way for competitors to enter the channel in a stronger way, using UFS's mistakes to gain advantage. Regarding this, there is not much UFS can do: being the incumbent will theoretically give a competitive advantage, but it also comes with this risk.

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E-COMMERCE FOR UNILEVER FOOD SOLUTIONS

APPENDIXES

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#1437

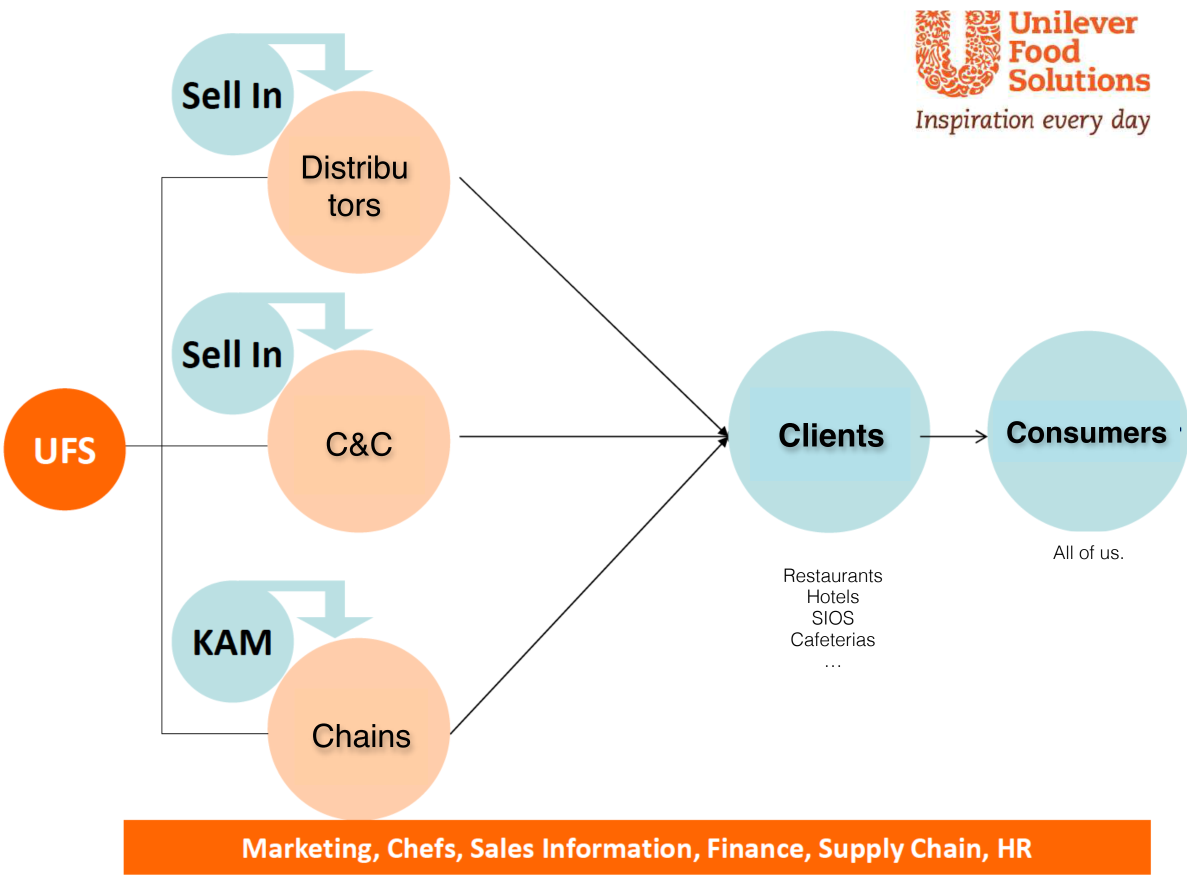
A Project carried out under the supervision of:
Victor Centeno

30/05/2014

Appendix 1 - UFS Brands and Portfolio

Source: Unilever Food Solutions trainee presentation (left); www.unileverfoodsolutions.pt (right)

Appendix 2 - Route to Market

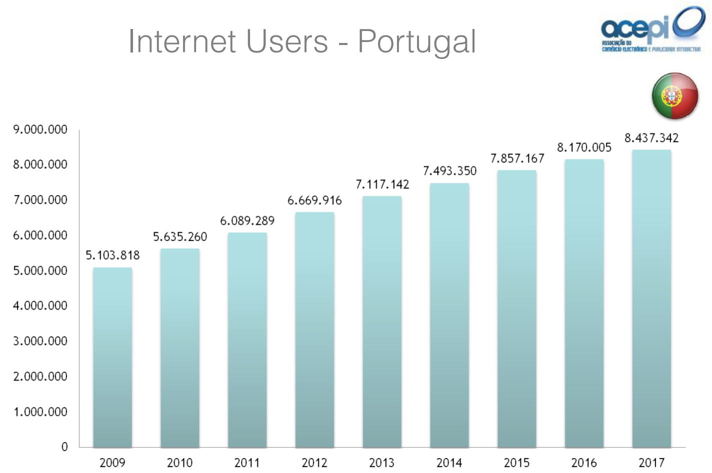


Source: Unilver Food Solutions Trainee Presentation, 2013

Appendix 3 - The conversion funnel

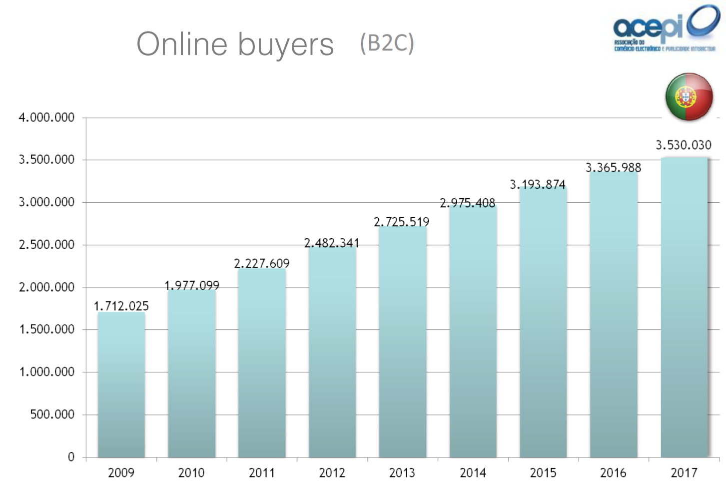
Source: www.marketingtruth.wordpress.com

Appendix 4. - E-commerce in Portugal



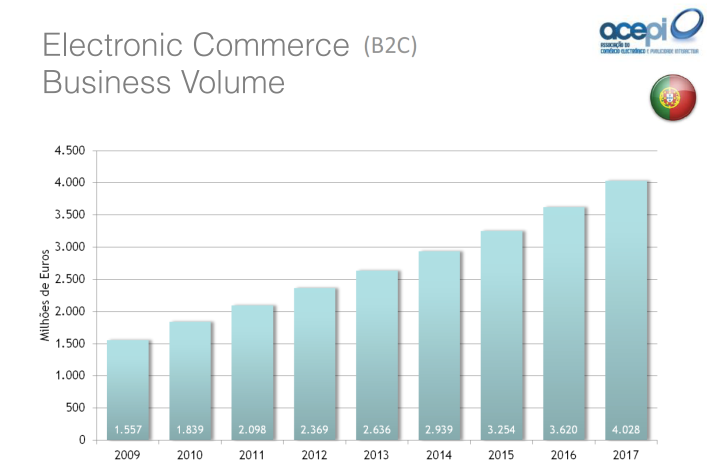
Fonte: IDC, Dados Preliminares, 2013

Growth of over 30% between 2009 and 2012. Plus 26% until 2017.



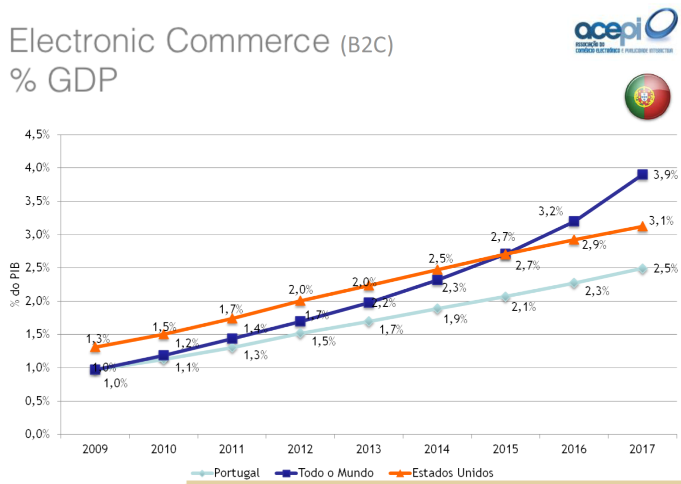
Fonte: IDC, Dados Preliminares, 2013

Growth of 45% between 2009 and 2012. Plus 42% until 2017.



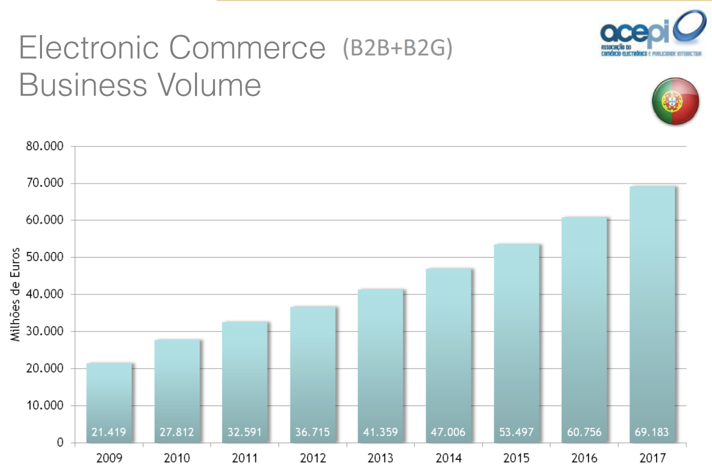
Fonte: IDC, Dados Preliminares, 2013

Growth of over 52% between 2009 and 2012. Plus 70%% until 2017.



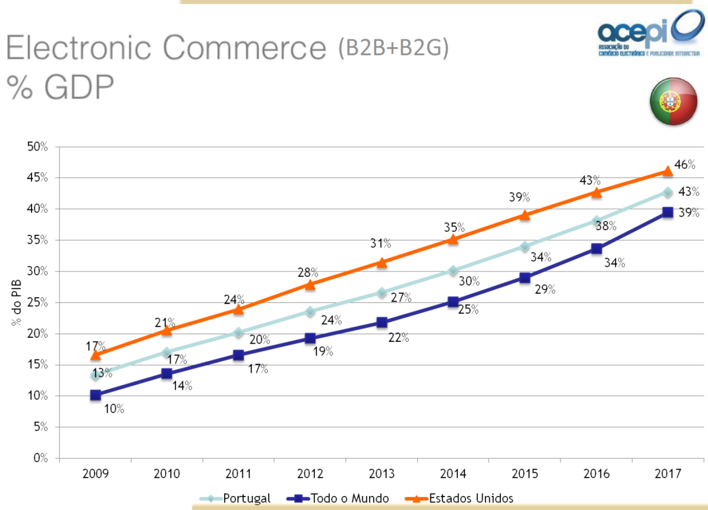
Fonte: IDC, Dados Preliminares, 2013

B2C valued 1,5% of GDP in 2012 and will be worth 2,5% in 2017.



Growth of over 70% between 2009 and 2012. Plus 88%% until 2017.

Fonte: IDC, Dados Preliminares, 2013



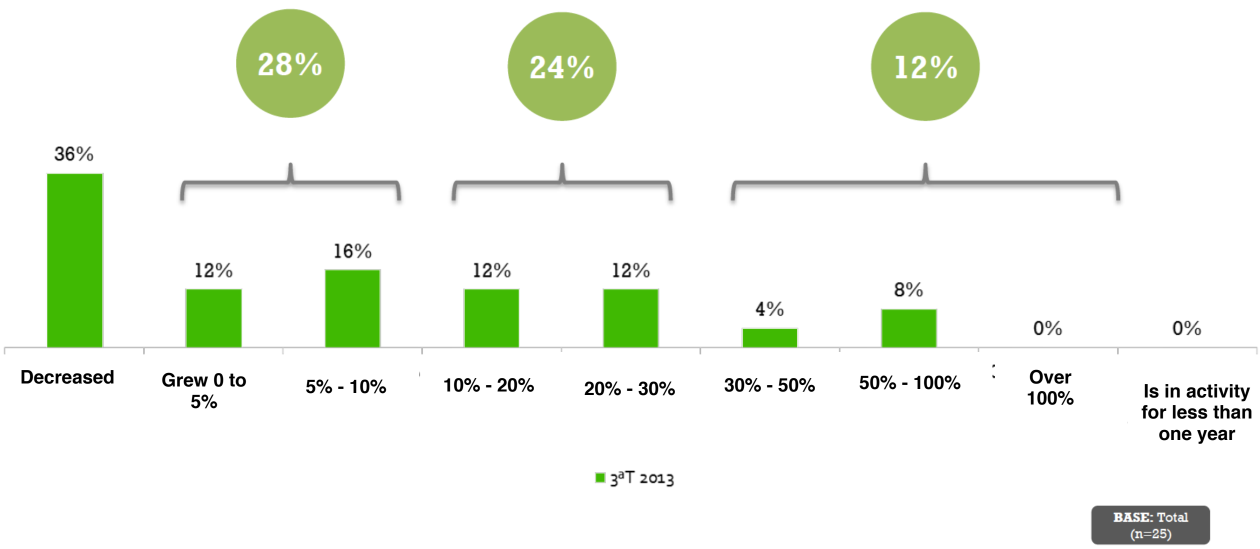
Fonte: IDC, Dados Preliminares, 2013

B2B/B2G valued 24% of GDP in 2012 and will be worth 43% in 2017.

Source: "Economia Digital em Portugal": Study conducted by Acepi and IDC

Appendix 5 - E-commerce Portugal: Volume of sales

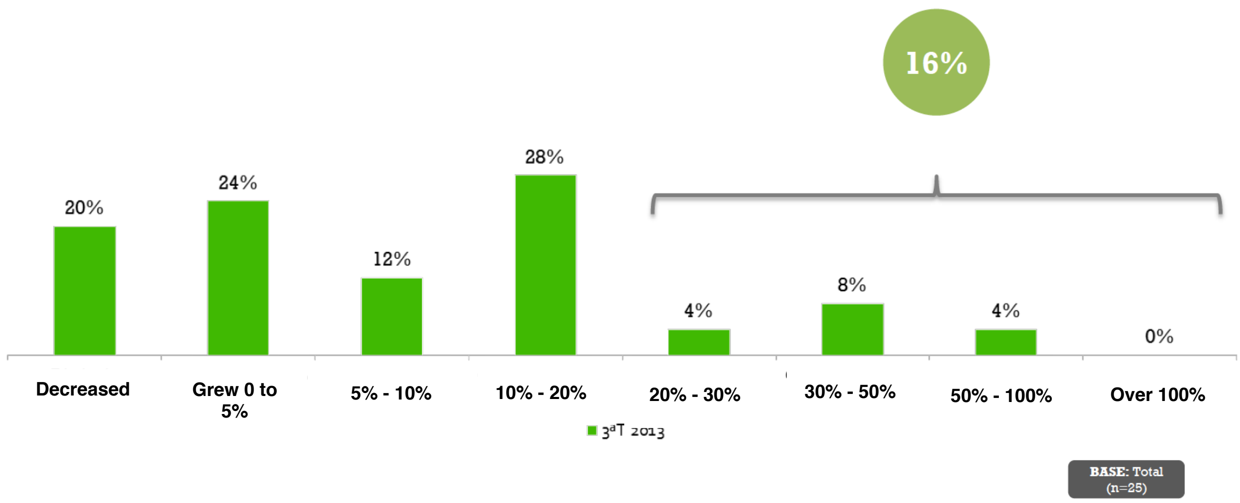
64% of the websites claim to have increase their volume of sales comparing with the homologous period and 34% claims to have had a double digit increase percentage.



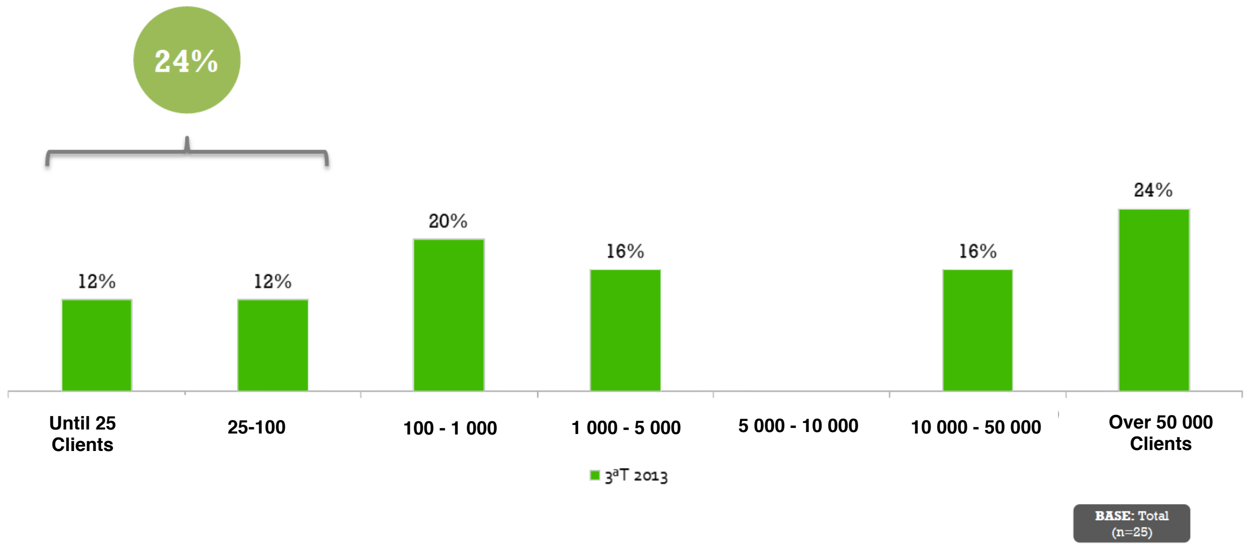
Source: Acepi e Netsonda: Barómetro Trimestral do Comércio Electrónico em Portugal - 3º Trimestre de 2013

Appendix 6 - E-commerce Portugal: Client base variation

80% of the websites claims to have had and increase in number of clients comparing to the homologous period.



24% of the websites claims to have had 100 or less clients in the analyzed period, while 40% claims to have had more that 10 000.



Source: Acepi e Netsonda: Barómetro Trimestral do Comércio Electrónico em Portugal - 3º Trimestre de 2013

Appendix 7 - Email accounts and email traffic, 2013-2017

	2013	2014	2015	2016	2017
Worldwide Email Accounts (M)	**3,899**	**4,116**	**4,353**	**4,626**	**4,920**
Business Email Accounts (M)	**929**	**974**	**1,022**	**1,078**	**1,138**
% Business Email Accounts	*24%*	*24%*	*23%*	*23%*	*23%*
Consumer Email Accounts (M)	**2,970**	**3,142**	**3,331**	**3,548**	**3,782**
% Consumer Email Accounts	*76%*	*76%*	*77%*	*77%*	*77%*

Daily Email Traffic	2013	2014	2015	2016	2017
Total Worldwide Emails Sent/Received Per Day (B)	**182.9**	**191.4**	**196.4**	**201.4**	**206.6**
% Growth		*5%*	*3%*	*3%*	*3%*
Business Emails Sent/Received Per Day (B)	**100.5**	**108.8**	**116.2**	**123.9**	**132.1**
% Growth		*8%*	*7%*	*7%*	*7%*
Consumer Emails Sent/Received Per Day (B)	**82.4**	**82.6**	**80.2**	**77.5**	**74.5**
% Growth		*0%*	*-3%*	*-3%*	*-4%*

Source: The Radicati Group Inc., Email Statistics Report, 2013-2017

Appendix 8 - Discount rate and costs

Discount rate for UFS's e-commerce project.

Beta of internet retail industry extracted from the website of Aswath Damodaran, professor at the Stern School of Business at New York University. (1,16)

$$r = rf + \beta \,.\, MRP$$

Risk free rate was estimated using a 10 year German "Bund". Value extracted in 13/05/2014, at 16:30. (1,42%)

Market risk premium was assumed to be 5%.

Overhead and Operating costs:	
Housing/Server	1800,00 €
Automated Billing	240,00 €
Loyalty program	1800,00 €
E-mail Marketing	900,00 €
SEM	1800,00 €
Other	2500,00 €
	9040,00 €

Appendix 9 - Financial Projections

Year 1		
Initial investment	20 000,00 €	
Expected TO for 2014	15 582 000,00 €	
Expected TO Growth for 2015	0%	
% canibalization	2%	
Value of canibalization	311 640,00 €	
Original partner’s margin	14,5%	
Value of canibalization to final cons.	364 491,23 €	
New partner’s margin	12,0%	
Online sales to current clients	320 752,28 €	
Savings with the new model	9 112,28 €	
# new clients	1600	=0,04x40 000
Minimum purchase	50,00 €	
New partner’s margin	12,0%	
Expected annual purchases	5	
Total orders	8000	
Sales to new clients	352 000,00 €	
TO	672 752,28 €	
Delta TO	2,16%	
GM	33,7%	
Gross Profit	226 717,52	
Overhead and Operating costs	9 040,00 €	
Operating Profit	197 677,52 €	
Discounted Operating Profit	183 019,51 €	
Physical Disc. Oper. Profit	920 000,00 €	
Delta Op. Profit	9,64%	

Year 2		
TO 2015 (Physical)	15 270 360,00 €	
Expected TO Growth for 2016	0%	
% canibalization	5%	
Value of canibalization	779 100,00 €	
Original partner's margin	14,5%	
Value of canibalization to final cons.	911 228,07 €	
New partner's margin	12,0%	
Online sales to current clients	801 880,70 €	
Savings with the new model	22 780,70 €	
# new clients	3600	=0,09x40 000
Minimum purchase	50,00 €	
New partner's margin	12,0%	
Expected annual purchases	5	
Total orders	18000	
Sales to new clients	792 000,00 €	
TO	1 593 880,70 €	
Delta TO	4,55%	
GM	33,7%	
Gross Profit	537 137,80	
Overhead and Operating costs	9 040,00 €	
Operating Profit	528 097,80 €	
Discounted Operating Profit	459 370,13 €	
Physical Disc. Oper. Profit	832 000,00 €	
Delta Op. Profit	28,37%	

Year 3		
TO 2016 (Physical)	14 802 900,00 €	
Expected TO Growth for 2017	0%	
% canibalization	7,5%	
Value of canibalization	1 168 650,00 €	
Original partner's margin	14,5%	
Value of canibalization to final cons.	1 366 842,11 €	
New partner's margin	12,0%	
Online sales to current clients	1 202 821,05 €	
Savings with the new model	34 171,05 €	
# new clients	4800	=0,12x40 000
Minimum purchase	50,00 €	
New partner's margin	12,0%	
Expected annual purchases	5	
Total orders	24000	
Sales to new clients	1 056 000,00 €	
TO	2 258 821,05 €	
Delta TO	5,68%	
GM	33,7%	
Gross Profit	761 222,69	
Overhead and Operating costs	9 040,00 €	
Operating Profit	752 182,69 €	
Discounted Operating Profit	610 233,34 €	
Physical Disc. Oper. Profit	714 000,00 €	
Delta Op. Profit	31,63%	

Appendix 10 - P&L UFS, FY 2013 and Forecast 2014

	Full Year		Fcst 2014	
	2012	2013	FY 2014	vs PY
Vol	**5 886**	**6 152**	**6 299**	**2,4%**
GSV	26 613	25 691	25 738	0,2%
per ton	4,52	4,18	4,09	-2,1%
Trade Terms	11 277	10 109	10 156	0,5%
TT%GSV	42,4%	39,3%	39,5%	
TO	**15 336**	**15 582**	**15 582**	**0,0%**
Deflated	15 309	16 212	15 582	
USG%	***-14,5%***	***1,6%***	***0,0%***	
UPG%	*0,2%*	*-3,9%*	*0,0%*	
UVG%	*-14,6%*	*5,7%*	*0,0%*	
Gross Profit	**5 037**	**5 200**	**5 256**	**1,1%**
GM%	32,8%	33,4%	33,7%	
B&MI	**604**	**583**	**700**	**20,0%**
B&MI %TO	3,9%	3,7%	4,5%	0,7%
Overheads	**3 641**	**3 672**	**3 550**	**-3,3%**
Overheads %TO	23,7%	23,6%	22,8%	-0,8%
Core Op Profit	**792**	**945**	**1 006**	**6,5%**
COM (%)	5,2%	6,1%	6,5%	

Appendix 11 - Survey results

n=	25			
SIO's	13	52%		
Restaurants	12	48%		
1.				
Do you know Unilever Food Solutions?	Yes	3	12%	
	No	22	88%	
2.				
Do you buy UFS's products?	Yes	20	80%	
	No	5	20%	
2.A				
Through what?	Distributors	9	45%	
	CnC	11	55%	
3.				
How would you score your relation with distributors on a scale of 0-10?	Average	7,56		
7.				
Would you be open to use the internet to buy products for your business?	Yes	12	48%	
	No	13	52%	

Appendix 12 - Business margins and # operators

	SELL OUT DATA
Total Market	76 700 Operators
Buying from UFS (with data)	24 000 Operators
Buying from UFS (no data)	15 000 Operators (estimated)

Source: Unilever Food Solutions Sell-out Report, 2013

PRICE BUILDING MODEL		
TABLE PRICE		100,00 €
MARGIN	14,50%	14,50 €
NET VALUE		85,50 €
PVR		100,00 €
OFF INVOICE CONDITIONS		
SCORE CARDS (UNTIL)	3,25%	2,78 €
FINANCIAL DISCOUNT (UNTIL)	1,25%	1,25 €

Source: Unilever Food Solutions Sell-in Report, 2013

Appendix 13 - Average purchase/number of purchases

Metrics	2012	2013
Average per Operator	390,16 €	357,52 €
Average per Document	62,87 €	57,85 €
Documents / Operator	6,21	6,18

Source: Unilever Food Solutions Sell-out Report, 2013